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ARIZONA CORPORATION COMMISSION

Brian C. McNeil
Executive Secretary

Direct Line: (602) 542-4143
Fax: (602) 542-0765
E-mail kmayes@cc.state.az.us

January 26, 2004

Mr. James Pignatelli
Chairman, President & Chief Executive Officer
Tucson Electric Power/Unisource Energy
P.O. Box 711
Tucson, AZ 85702

RE: Recent natural gas price increases in Northern Arizona

Dear Mr. Pignatelli:

As you by now are aware, customers of Unisource Gas, Inc. (UNS), in Yavapai, Coconino, Apache, Santa Cruz and Mohave counties have come under the burden of extremely large increases in their natural gas bills.

While to some degree a large increase was anticipated as a result of the confluence of the Commission's Decision No. 66341, allowing for a .1155 per therm PGA surcharge, and higher natural gas prices nationwide, some customers are experiencing egregiously high bills.

One outraged individual wrote in a recent letter to the *Prescott Courier* that his bill had increased 59 percent over the previous year, taking into account both the PGA surcharge and the higher per therm costs charged by Unisource over Citizens, the company which provided natural gas service to these areas prior to your acquisition of it. Another individual from Chino Valley reported to me similar experiences with his bills this winter.

Moreover, I recently met with members of the Flagstaff City Council and the Flagstaff City Manager, who expressed concern about how these increases came to pass and how their residents, particularly those living on a fixed or low income, will be able to afford them.

Given the immediate hardships faced by many northern Arizonans, please provide to me in an expedited fashion answers to the following questions:

Actual per therm increase

In its application for the PGA surcharge, UNS projected that the overall cost of gas under the Surcharge, absent the PGA rates, would be \$0.6145 per therm, in January 2004. The Commission's staff reports that the actual cost per therm for January has hit \$0.6198. Please

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explain the difference between the rate you projected to the ACC at the time of the applications and the current actual rate. If the difference is due to higher market prices, please explain what you are doing to negotiate better contracts in the future.

Outreach and education efforts

Commission Decision No. 66341 required Unisource to reach out to its customers in order to inform them of the looming price increases and to educate them about Unisource's programs designed to mitigate hardships created by the increases. These efforts were to include radio spots, television ads, and print advertising, in addition to three separate inserts in customers' bills. The surprised reaction to the increases in Prescott and Flagstaff suggests to me that either the outreach effort was inadequate or never occurred. Please detail for me the advertising (being specific as to which newspapers and radio and television stations targeted) you have completed, and specify whether you believe UNS has complied with the Commission's outreach, education and bill insert requirements.

Circuit breaker

Moreover, under the Commission's order, Unisource was to implement a circuit breaker, whereby UNS would not apply the PGA surcharge to a residential customer's usage that surpassed 140 percent of the average residential customer usage, essentially helping to alleviate the impact of the surcharge. Has this circuit breaker been implemented as ordered, and if so, how many customers have hit the circuit breaker limit?

Current PGA bank balance

Commission Decision No. 66341 also mandates that the PGA surcharge be eliminated once the UNS PGA bank balance returns to zero. Where does the UNS PGA bank balance currently stand and how long does UNS believe it will take for the balance to reach zero?

Thank you for your quick attention to these questions.

Sincerely,



Kris Mayes
Arizona Corporation Commissioner

Cc: Chairman Marc Spitzer
Commissioner Bill Mundell
Commissioner Mike Gleason
Commissioner Jeff Hatch-Miller